

MINUTES OF THE REGULAR CITY COUNCIL -
 LIGHT & POWER MEETING OF THE CITY OF VERNON
 HELD MONDAY, JULY 19, 2010, IN THE COUNCIL
 CHAMBER OF THE CITY HALL LOCATED AT
 4305 SANTA FE AVENUE, VERNON, CALIFORNIA

MEMBERS PRESENT: Gonzales, McCormick, Davis, Maisano, Newmire

MEMBERS ABSENT: None

The meeting was called to order at 8:01 a.m. by Mayor Gonzales.

The City Clerk advised of the following changes to the agenda:

1. The words "End of Consent Calendar" were inserted just before the "Discussions" heading; and
2. Resolution number 1 concerning an agreement between the City of Vernon and Associated Energy Partners, LTD was removed.

The City Clerk announced that this was the time allotted for public comments.

The Mayor asked if there was anyone in the audience who wished to address the City Council. No one in the audience responded.

CONSENT CALENDAR

1. Approval of the following open purchase orders for the 2010-2011 fiscal year:

<u>VENDOR</u>	<u>DESCRIPTION</u>	<u>ANNUAL LIMIT</u>
AVF PROCESS CONTROLS	METER REGULATORS	\$84,000.00
BELL PIPE & SUPPLY	PIPING /FITTINGS	\$36,000.00
MEASUREMENT CONTROL SYSTEMS	GAS METERS, GAS SUPPLIES	\$84,000.00
MENON PIPE & SUPPLY	GAS PIPING AND FITTINGS	\$36,000.00
P&F DISTRIBUTORS	PIPE MATERIALS / REPAIRS	\$36,000.00

2. Approval of Light & Power Warrant Register No. 283, totaling \$7,936,206.40, which covers the period of June 15 through July 12, 2010, and consists of the following:
 - a. Ratification of wire transfers totaling \$7,752,688.52;
 - b. Ratification of the issuance of early checks totaling \$74,870.53; and
 - c. Authorization to issue pending checks totaling \$108,647.35.
3. Approval of Gas Warrant Register No. 71, totaling \$300,119.14, which covers the period of June 15 through July 12, 2010, and consists of the following:
 - a. Ratification of wire transfers totaling \$256,121.63;
 - b. Ratification of the issuance of early checks totaling \$16,602.22; and
 - c. Authorization to issue pending checks totaling \$27,395.29.
4. Resource Procurement Report for the month of April 2010, to be received and filed.
5. Resource Procurement Report for the month of May 2010, to be received and filed.

It was moved by Davis and seconded by McCormick, that the matters on the Consent Calendar be approved as recommended. Motion carried, 5-0.

DISCUSSIONS

1. Project Gust: Update on the progress and process of the sale of the remaining wind project land in Tehachapi.

Director of Light & Power Donal O'Callaghan reported on this matter.

The City had sold the first tranch of 12,000 acres for \$40 million to a company called Nextera, that is now developing it. The City has been working with Barclays Capital and Latham & Watkins to put together documents, including a Confidential Information Memorandum, to go out to the market within the next two days.

O'Callaghan anticipated 17-20 companies that would be interested in the public bidding process option. He stated that Nextera was the logical choice for the second tranch since they were already there. Conversations between the City and Nextera have occurred whereby Nextera asked a lot of questions regarding the City's goals and objectives, and what the City's price expectations were for the remaining tranch of land.

O'Callaghan's target price for the remaining tranch is similar to that of the first tranch, but he was not certain that could be achieved because of the land use and other issues. O'Callaghan anticipated that Nextera would join in the auction process rather than go it alone. The best scenario would be for Nextera to come in and pay the price of land paid for the first tranch, but that did not seem likely based on conversations and the amount of money sought (\$60 million) and a Power Purchase Agreement that is a sizeable project in today's market.

Project Gust is viewed as a two-phase process. First, determining the level of interest within the first month, and then obtaining final binding offers within the following month. That is, trying to close the transaction in October.

A transmission interconnect evaluation is very important as to how the energy is transported out of the region. Further, environmental permitting by the City would help obtain a better price so long as the City could transfer the permits over to a potential bidder. Wind studies and a right of way application with Bureau of Land Management ("BLM") were also being considered. O'Callaghan wanted to look at the possibility of a land swap with the BLM to bring city parcels closer together or enhancing them in terms of megawatts produced. Latham & Watkins and Peter Hervish are exploring these issues.

As for the Power Purchase Agreement for renewable energy, there is current State legislation requiring 33% of our load that has to be renewable by 2017, which is challenging. There is a lot of debate over what that means and how it's going to be achieved, including whether the

system could even support 33%. Past conversations with Cal ISO confirmed that the current transmission system cannot carry 33%; 20% was thought to be more realistic. However, 33% is the City's target with the investment in the Tehachapi lands with a power purchase agreement to make that possible. Senate Bill 722 relates to renewable energy and proposed changes to some of the dates of implementation. O'Callaghan stressed the need to keep track of this legislation.

Under Project Gust, the goal is to obtain 50% or greater of the purchase price at closing and the remainder returned over the next three to five years, contrary to the Red Rock River project where O'Callaghan's direction was to get all of the money upfront because he wanted to have the investment in that land back as soon as possible. This would ease some of the City's cash flow issues. O'Callaghan said he would keep the Council apprised of the negotiations. He noted that the wind land agreement contained a solar land option, which meant that the City could purchase it within a year and a half. O'Callaghan opined that the City would not purchase the land, but hold the option without the risk of losing the option price, in anticipation of the price going up.

The last Project Gust item under consideration is whether the power purchase agreement should be 80 megawatts or 200 megawatts, depending on some of the projections. O'Callaghan advised the Council that when you want 80 megawatts of wind energy, you have to take 100 megawatts because the capacity factor on the Tehachapi wind is probably about 34%. The usable function of 100 mega watts from the perspective of renewable energy to your load is 34% of 100 mega watts, simply because the wind doesn't blow all the time. The wind only blows 34% of the time, which makes it expensive and is the reason for all the current debates on wind renewable energy.

The discussion regarding Project Volt was continued to 11:00 a.m., when consultants were expected to arrive.

The resolutions related to agreements with Barclays Capital and Latham & Watkins LLP were also continued to 11:00 a.m.

ORAL REPORTS

1. Brief reports and announcements from the Director of Light & Power.

Director of Light & Power Donal O'Callaghan reported that Senate Bill 722 relates to the acceleration of implementation dates for renewable energy. By 2017, the legislation requires that the City's portfolio consist of 20% renewable energy. A 4-year acceleration of that requirement would significantly impact rates as renewable energy is priced at a premium over traditional resources. O'Callaghan stressed the importance of working with Barkley's in closing the wind land deal (Project Gust) in order for the City's customers to be competitive.

At 8:27 a.m., the City Council recessed into closed session to discuss the items listed on the closed session agenda.

At 8:30 a.m., the City Council resumed open session.

CLOSED SESSION REPORT OUT

1. The City Attorney reported that the City Council unanimously voted to appoint Edwin Ochoa to the position of Associate Resource Scheduler I.

RESOLUTIONS

1. **RESOLUTION NO. 2010-91** - A Resolution of the City Council of the City of Vernon Amending Resolution No. 9639 by Amending Schedule No. XIII, of Said Resolution Regarding the Compensation, Costs and Benefits of its Employees (Amendment No. 17)

It was moved by McCormick and seconded by Maisano, that Resolution No. 2010-91 be approved and adopted. Motion carried, 5-0.

At 8:32 a.m., the Mayor called a recess until 11:00 a.m.

At 11:00 a.m., all five members of the City Council reconvened in open session.

DISCUSSIONS - CONTINUED

2. **Project Volt: Update on the progress and process of the project.**

Consultant Eric Fresch informed the Council of two resolutions for its approval: one for a financial advisory services agreement with Barclay's Bank and the second for an agreement with the law firm of Latham & Watkins. The purpose of the agreements is to allow Fresch to formally pursue what the Council had recently authorized him to do, which is seek options to restore the City's Light & Power Department debt through innovative ways to get financed funds from Wall Street markets. This would include pension funds, life insurance companies, and private equity funds that are interested in investing in infrastructure assets, which is what the City's Light & Power Department is. Latham & Watkins is working to be the first to put together a system utilizing a distribution system for which the rate payers pay revenues. John Lange, Global Managing Director, for Barclay's Bank and Dave Rogers of Latham & Watkins were present. Lange, Rogers and Craig Underwood of Bond Logistix were identified as the same group of people who put together the sale of the power plant back in 2008 when the City netted nearly \$400 million dollars that came just in time to pay off a collapsed bond issue when it went to 15%. This group, along with Donal O'Callaghan, then went forward and purchased the wind property in Tehachapi for \$42 million, for which the City netted \$40 million after selling a third of that property.

Fresch was exploring opportunities in the market place where big funds are not getting their normal return on investment. The City Attorney's Office will work with Orrick, Herrington & Sutcliffe, the City's bond counsel, on this matter. This opportunity was viewed as "fleeting" since this group usually works with the private markets.

Getting this group into Vernon was an effort gain access to capital not otherwise available to a small Southeast Los Angeles city, as compared to the LADWP, Silicon Valley or the City of Santa Clara. The capital sought would be used to improve the City's power system, keep customer rates low, and to maintain and improve the City's infrastructure. Fresch sees this as a great opportunity for the City's Light & Power Department to get involved with a number of capital projects.

Mayor Gonzales viewed this as an opportunity to improve the City. Gonzales reflected on why the City first went into the electrical power business back in 1933, when Southern California Edison ran Vernon's electrical system. The City decided to change due to the rising cost of electricity that was a concern to the business community, causing the City to purchase five diesel turbines to provide electrical power to the City's business community. Gonzales stated that the City should try to take advantage of these opportunities. He wants the City to be here for another 100 years by making the right decisions with the experience of Fresch, Barclay's, and Latham & Watkins.

Councilman Maisano concurred with Mayor Gonzales regarding the economy and doing everything we can to benefit the City. He too looked at this as the right move for the City.

Councilman McCormick stated that the areas Fresch has helped with have been good for the City in one way or another.

Councilman Davis agreed with Mayor Gonzales, stating that the City has been here for so many years, and for all of the ups and downs, as far as power is concerned, with Fresch's help, along with Barclays and Latham & Watkins, this is something to look forward to. Davis commented that the City needs to look at how long this process is going to take.

Fresch stated that, "We don't want to sell it [Light & Power], we are just going to structure something that will be sort of an asset, and well it's copyrighted." Fresch will report to the Council on a regular basis, to be certain they are in agreement with the direction of the project, and reiterated that this will not be a sale.

Councilman Davis asked if this project would include the entire electrical system, including transformers, underground cables, substations, and communication in the City. Fresch confirmed that it would.

Fresch said this program is not going to be like the City of Chicago selling their parking meters or parking structures or LADWP selling their building and their transmission corridors. This program is a way the City can access capital at a good return that allows the City to retire all the debt that is currently in the City's Light & Power Department, and have capital left over to invest in something that is good for the City's electric system.

Councilman Newmire complimented Fresch on his vision, stated that he looks positively to the future, and thanked Fresch for his involvement.

Interim City Administrator Whitworth wanted to make sure that everyone was aware of Donal and all others involved in this project. Fresch has taken on a lot of projects in the past and it's always in the nature of moving the City forward and Whitworth wanted to show his support of what he's done in the past and his hopes that Project Volt is the injection the City needs to get up and going and moving forward.

City Attorney Larry Weiner reminded the Council that it had two resolutions on the agenda: one regarding an agreement with Barclays Capital and the other regarding an agreement with Latham & Watkins. Weiner was looking for City Council approval of the basic financial terms set forth in the contracts and then direction to authorize the Mayor to execute the agreement with revisions that are satisfactory to the City Attorney as they talk a little bit about the definitions that are set forth in the contract and some of the other terms that are there to make sure that both parties are satisfied as to what was intended.

RESOLUTIONS - CONTINUED

- 1. RESOLUTION NO. 2010-89** - A Resolution of the City Council of the City of Vernon Approving and Authorizing the Execution of an Agreement by and between the City of Vernon and Barclays Capital for Financial Advisory Services in Connection with Project Volt.

It was moved by McCormick and seconded by Newmire, that Resolution No. 2010-89 be approved and adopted. Motion carried, 5-0.

- 2. RESOLUTION NO. 2010-90** - A Resolution of the City Council of the City of Vernon Approving and Authorizing the Execution of an Agreement by and between the City of Vernon and Latham & Watkins LLP for Legal Services.

It was moved by McCormick and seconded by Maisano, that Resolution No. 2010-90 be approved and adopted. Motion carried, 5-0.

At 11:36 a.m., it was moved by McCormick and seconded by Davis, that the meeting be adjourned. Motion carried.

Hilario Gonzales
Mayor

ATTEST:

Willard G. Yamaguchi
City Clerk